



The International Equity Composite rose 7.4% for the month, trailing the MSCI All Country World ex-US Index ("the Index") which appreciated by 9.1%. For the year the Composite is up 2.5%, while the Index is down 2.7%.

International equity markets reversed in July—with the best monthly performance in a year—following a spring swoon that saw markets slide over 16% between April and the end of June. Relief from the market's second quarter angst arrived this month in a variety of forms—good corporate earnings, the fact that nearly all European banks passed the European Central Bank's stress test, a relaxation of the pending Basel III standards for bank capitalization, and, finally, the capping of BP's blown-out well in the Gulf of Mexico.

Less welcome were the scorching temperatures this month, as the eastern half of the US and Europe suffered one of the hottest Julys on record. From the Urals to the UK, Europe has baked under an unrelenting high pressure system all summer. Forest fires coursed across parched steppes and forests in Ukraine and western Russia. Crops withered in the hot, dry conditions to the point that the Russian government banned wheat exports for the balance of the year in anticipation of a crop that may be 25% below last year's harvest. Wheat prices climbed over 60% from the end of June through the first week of August in expectation of the reduced crops.

The economic implications of higher crop prices could be significant. Margins for food companies may be compressed, unless higher prices can be passed on to consumers. Food inflation is likely in emerging economies, where bread is a staple of daily diets, and food costs are a significant component of per capita income. Brewers, similarly, may see higher costs for barley and

hops, as the heat has reduced the expected harvest of these crops as well. On the other hand, farmers in the western hemisphere should benefit from higher prices, and so should multi-national grain companies such as Archer Daniels Midland and **Bunge**, as customers pay up for their ability to source and deliver product in tight markets.

*In approving for the first time a generic biologic, the FDA has laid out a regulatory pathway for others to follow.*

In company news this month, **Roche Holding** was dealt a setback when the Oncologic Drugs Advisory Committee of the FDA recommended that Avastin not be approved for use in first-line treatment of metastatic breast cancer. Avastin had annual sales of 6.2 billion CHF in 2009; it is approved for use in secondary treatment of breast cancer and colo-rectal cancer in the US, and is approved for first-line treatment of breast cancer in Europe. Also in the Health Care sector, we purchased **Lonza Group**, the biologic contract manufacturer. Lonza should benefit from the loss of patent protection for a multitude of biologic drugs over the next five years. The catalyst for our purchase was the FDA approval in July of generic Lovenox, a biologic anti-coagulant typically used in post-surgical settings. In approving for the first time a generic biologic, the FDA has laid out a regulatory pathway for others to follow. Lonza's expertise in highly technical fermentation should be in demand from generic companies seeking additional approvals.

Analyst travels in the month included Yoko Sakai's annual summer pilgrimage to her native Japan where she is visiting companies in a variety of industries.

#### Returns (%) for the Periods Ending July 31, 2010<sup>1</sup>

|   | 1 Month | Calendar YTD | 1 Year | 3 Years <sup>2</sup> | 5 Years <sup>2</sup> | 10 Years <sup>2</sup> | Since Inception <sup>2,3</sup> |
|---|---------|--------------|--------|----------------------|----------------------|-----------------------|--------------------------------|
| HL International Equity (gross of fees)         | 7.44    | 2.46         | 17.86  | -1.95                | 7.54                 | 3.89                  | 8.33                           |
| HL International Equity (net of fees)           | 7.31    | 1.96         | 17.02  | -2.64                | 6.80                 | 3.15                  | 7.46                           |
| MSCI All Country World ex-US Index <sup>4</sup> | 9.06    | -2.72        | 10.12  | -7.56                | 4.89                 | 3.60                  | 4.89                           |
| MSCI EAFE Index                                 | 9.49    | -4.67        | 6.72   | -9.83                | 2.58                 | 1.94                  | 4.05                           |

<sup>1</sup>The July 2010 Composite performance shown is preliminary; <sup>2</sup>Annualized returns; <sup>3</sup>Inception date: December 31, 1989; <sup>4</sup>The Benchmark Index.

The International Equity Composite contains fully discretionary US dollar-based international equity (non-US) accounts. Harding Loevner LP is an investment adviser registered with the Securities and Exchange Commission. Harding Loevner is an affiliate of Affiliated Managers Group, Inc. (NYSE: AMG), an investment holding company with stakes in a diverse group of boutique firms. Harding Loevner claims compliance with the Global Investment Performance Standards (GIPS®). Harding Loevner has received a firm-wide GIPS verification by Ashland Partners & Company, LLP beginning November 1, 1989. The most recent verification was for the Quarter ending March 31, 2010. The International Equity Composite has received a performance examination beginning December 31, 1989. Performance data quoted represents past performance; past performance does not guarantee future results. The US dollar is the currency used to express performance. For complete information on the construction and historical record of the International Equity Composite, please contact Harding Loevner at (908) 218-7900 or visit [www.hardingloevner.com](http://www.hardingloevner.com).

The MSCI All Country World ex-US Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the US. The Index consists of 44 developed and emerging market countries. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. The Index consists of 22 developed market countries. You cannot invest directly in these Indices.

Bold indicates companies held in the portfolio during the month. The portfolio is actively managed therefore holdings may not be current. They should not be considered recommendations to buy or sell any security. It should not be assumed that investment in the securities identified has been or will be profitable. To request a complete list of holdings for the past year, please contact Harding Loevner.

## Contributors to Returns (%) for the Month Ending July 31, 2010

| Largest Contributors | Sector           | Portfolio Weight | Contribution |
|----------------------|------------------|------------------|--------------|
| ARM Holdings         | Info Technology  | 2.5              | 0.56         |
| Standard Chartered   | Financials       | 2.8              | 0.47         |
| Erste Group Bank     | Financials       | 1.7              | 0.38         |
| Allianz              | Financials       | 2.4              | 0.37         |
| MTN Group            | Telecom Services | 1.8              | 0.37         |

| Largest Detractors   | Sector          | Portfolio Weight | Contribution |
|----------------------|-----------------|------------------|--------------|
| Autonomy             | Info Technology | 2.3              | -0.15        |
| Roche Holding        | Health Care     | 1.5              | -0.10        |
| Qiagen               | Health Care     | 1.5              | -0.08        |
| Teva Pharmaceuticals | Health Care     | 0.7              | -0.04        |
| Synthes              | Health Care     | 1.3              | -0.04        |

The portfolio holdings identified above do not represent all of the securities held in the portfolio. It should not be assumed that investment in the securities identified has been or will be profitable. The following information is available upon request: (1) information describing the methodology of the contribution data in the charts above; and (2) a list showing the weight and contribution of all holdings during the month. Past performance does not guarantee future results. In the charts above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance over the period. The portfolio is actively managed therefore holdings shown may not be current. They should not be considered recommendations to buy or sell any security.

## Sector Exposure (%) at July 31, 2010

| Sector             | HL Intl | MSCI ACW ex-US | Over/Under the Benchmark |
|--------------------|---------|----------------|--------------------------|
| Info Technology    | 15.3    | 6.7            | 8.6                      |
| Cons Staples       | 16.3    | 8.9            | 7.4                      |
| Health Care        | 12.9    | 5.9            | 7.0                      |
| Cash               | 2.4     | —              | 2.4                      |
| Cons Discretionary | 10.7    | 8.8            | 1.9                      |
| Telecom Services   | 5.9     | 6.1            | -0.2                     |
| Energy             | 9.5     | 10.3           | -0.8                     |
| Industrials        | 7.1     | 10.4           | -3.3                     |
| Utilities          | 0.0     | 4.7            | -4.7                     |
| Materials          | 5.3     | 11.8           | -6.5                     |
| Financials         | 14.6    | 26.4           | -11.8                    |

## Geographical Exposure (%) at July 31, 2010

| Region             | HL Intl | MSCI ACW ex-US | Over/Under the Benchmark |
|--------------------|---------|----------------|--------------------------|
| Europe ex-EMU      | 30.5    | 23.5           | 7.0                      |
| Other <sup>1</sup> | 3.5     | —              | 3.5                      |
| Cash               | 2.4     | —              | 2.4                      |
| Middle East        | 0.7     | 0.5            | 0.2                      |
| Europe EMU         | 21.2    | 21.2           | 0.0                      |
| Emerging Markets   | 21.4    | 23.1           | -1.7                     |
| Japan              | 12.7    | 15.3           | -2.6                     |
| Pacific ex-Japan   | 5.2     | 8.7            | -3.5                     |
| Canada             | 2.4     | 7.7            | -5.3                     |

<sup>1</sup>Includes countries outside the benchmark where some holdings are incorporated.

Source: Wilshire Atlas; MSCI Barra and S&P. MSCI and S&P do not make any express or implied warranties or representations and shall have no liability whatsoever with respect to any GICS data contained herein. Portfolio holdings and sector/geographic allocations are supplemental information only and complement a fully compliant International Equity Composite GIPS Presentation, which is available upon request.

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